

**IWD's Issue:**

At issue is the application of the currently used I3 Rate (\$8.64) towards the number of full and part time permanent employees from State Fiscal Year 2004 as an indication of State Fiscal Year 2006 expenditures. While it may be acceptable to use SFY 2004 data in the construction of budgets, it is not acceptable in terms of billings for the current state fiscal year for a few reasons – 1) for any agency, the number of employees does not remain static from fiscal year to fiscal year (as programs come and go, so do employees); 2) OMB Circular A-87 requires agencies to allocate a proportionate share of expenditures to particular cost objectives if the goods or services involved are chargeable or assignable to such cost objectives in accordance with relative benefits received; and 3) CMIA requires the receipt of federal funds to be based on actual expenditures.

Currently IWD is being billed \$6,834.24 monthly. This amount is derived by applying the current rate of \$8.64 towards the number of full and part time permanent employees from SFY 2004 which is 791. This methodology of billing does not provide a basis of billing agencies for actual expenditures incurred nor does it allocate a proportionate share of costs to agencies relative to the benefit they receive as the statistical data is too old. In particular, IWD is being billed an amount based on SFY 2004 statistics (the specific number of FTEs) which do not reflect current data. To allocate a disproportionate share of costs to agencies subsequently results in a disproportionate share of costs being allocated to federal and non-federal programs. Without annual reconciliations by DAS to bring the billings into balance with more representative data, disproportionate billings to agencies could result in the disallowance/loss of federal funds to the agency.

In addition to OMB Circular A-87, IWD must be compliant with the Cash Management Improvement Act (CMIA). This act outlines the rules and procedures for efficient federal/state funds transfers. It is this act that requires the receipt of federal funds to be based on actual expenditures. Thus billings based on budgets to agencies would place those agencies in jeopardy of non-compliance with CMIA. With the methodology currently in use for billing agencies, it would be necessary for DAS to reconcile their expenditures to their revenues and distribute any resulting overage/underage to the agencies to ensure compliance annually.

**For Consideration:**

It was expressed in the January 12, 2006 Customer Council meeting, that the methodology for billing I3 costs to agencies was viewed to be an allocation as opposed to a fee-for-service billing. It was also stressed that there is a fixed cost associated with the I3 system that must be recovered. With these comments taken into consideration, the current methodology for billing agencies will not guarantee that the full costs associated with the system will be recovered. The establishment of rates for the I3 system provides a beneficial tool to agencies for establishing budgets, but billing based on rates (whether viewed as an allocation or as fee-for-service) will not necessarily guarantee DAS full recovery of the system costs should events arise that would incur unanticipated costs. The only way to guarantee that the full amount of the system costs will be recovered is to bill the agencies a proportionate share of each month's actual expenditures incurred by DAS.

The methodology employed should take into consideration the current month's expenditures less applicable revenues received outside of billings to state agencies (i.e. pooled technology \$ as well as refunds & reimbursements). The resulting amount should be distributed amongst all state agencies

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using an allocation basis that reflects current data for the period being billed. For example, the DAS financials for a particular month might reflect the below current month's figures:

Revenues:	
Transfers, Pooled Tech	\$192,849.58
Reimbursement, I3 Utility Fees	\$188,064.40
Refunds & Reimbursements	\$ 745.00
Total Revenues:	\$381,658.98
Expenditures:	\$405,155.20

Calculation of amount to be billed to agencies:  
 \$405,155.20 (expenditures) - \$193,594.58 (revenues – pooled tech and refunds/reimbursements) =  
 \$211,560.62 to be allocated amongst agencies.

The allocation of the amount to be distributed to each agency can be based on a percentage derived by taking the number of employees for that agency and dividing it by the total number of employees statewide for this respective month. For example if IWD's percentage of employees of the total is 3.6%, then IWD would be allocated \$7,616.18 ( $\$211,560.62 \times 3.6\%$ ) for that month's bill.

**Desired result of this appeal:**

For DAS to allocate actual monthly costs related to the I3 system proportionately amongst all applicable state agencies in a manner in which the allocations are based on current statistical data representative of the period being billed. It is desired that the methodology be employed for the entire state fiscal year 2006 (retroactive to July 1, 2005).